



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 26, 1997

H.R. 2487

Child Support Incentive Act of 1997

*As ordered reported by the House Committee on Ways and Means
on September 23, 1997*

SUMMARY

H.R. 2487 would change the formula used to grant incentive payments to states based on the performance of their child support programs. The new formula would base payments on a broader set of performance criteria and would increase the weight given to states' success in collecting support for non-welfare recipients. CBO estimates that the bill would lower federal costs in 2000 and 2001, by \$14 million and \$7 million respectively, and raise costs in 2002 by \$4 million. After 2002 the cost of the legislation would grow, reaching \$147 million by 2007 and totaling \$439 million over the 1998-2007 period.

Because it would change the formula for entitlement grant awards in the Child Support Enforcement program, H.R. 2487 may impose a mandate, as defined in the Unfunded Mandates Reform Act of 1995 (UMRA), on some states. However, the costs of this potential mandate would fall well below the threshold established in the act (\$50 million in 1996, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2487 is shown in the following table.

Table 1. Estimated Impact on Federal Spending (by Fiscal Year, in Millions of Dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
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Child Support Incentives										
Under Current Law										
Estimated Budget Authority	415	436	439	446	468	479	473	465	478	490
Estimated Outlays	415	436	439	446	468	479	473	465	478	490
Proposed Changes										
Estimated Budget Authority	0	0	-14	-7	4	24	61	101	123	147
Estimated Outlays	0	0	-14	-7	4	24	61	101	123	147
Child Support Incentives										
under H.R. 2487										
Estimated Budget Authority	415	436	425	439	472	503	534	566	601	637
Estimated Outlays	415	436	425	439	472	503	534	566	601	637

The costs of this legislation fall within budget function 600 (Income Security).

BASIS OF ESTIMATE

Current Incentive Formula

Currently, the federal government allows states to retain as incentive payments a portion of the amount of child support they collect from non-custodial parents. The formula gives each state at least 6 percent of its Temporary Assistance for Needy Families¹ (TANF) collections plus 6 percent of its non-TANF collections, up to a cap of 115 percent of the incentive payment earned for TANF collections. TANF collections are collections of child support on behalf of recipients of aid under the TANF program that the government retains to reimburse itself for past assistance payments. They include collections of past-due support on behalf of families that formerly received TANF. Non-TANF collections, which are paid directly to families, include all other child support collected.

1. TANF will be used throughout to refer to both the Temporary Assistance for Needy Families program and its predecessor program, Aid to Families with Dependent Children (AFDC).

A state that runs a very cost-effective program (measured by dollars collected per dollar of administrative spending) can earn federal incentive payments equal to more than 6 percent of collections, but only about half a dozen states have qualified for higher incentives in recent years. Most states have non-TANF collections that would qualify for incentives significantly higher than the 115 percent cap, so increases in non-TANF collections do not affect the amount of incentive payments states receive. In 1996, states earned a total of \$409 million in incentive payments.

Proposed Incentive Formula

The new formula would change both the components of the collection base and the percent of the collection base that states could receive. The new collection base would equal twice the sum of TANF collections and non-TANF collections on behalf of former TANF recipients, plus all other non-TANF collections:

2 x (TANF Collections + Non-TANF Collections on behalf of former TANF recipients) + all other Non-TANF collections

While the current formula distinguishes only between TANF and non-TANF collections, the new formula would give extra weight to non-TANF collections on behalf of former TANF recipients. Also, the new formula would remove the 115 percent cap on non-TANF collections. Based on historical growth rates and expected changes in the TANF program, CBO projects that non-TANF collections will grow faster than TANF collections over the next ten years. Therefore, we expect that incentive payments under the new formula would grow more quickly than under the current formula.

The estimate assumes that collections on behalf of former TANF recipients are 47 percent of non-TANF collections. This percentage is based on data from fourteen states representing 30 percent of all non-TANF collections.

While the percent of collections a state can receive under current law varies only with its cost effectiveness, the proposed formula would vary the percent based on five performance criteria:

1. Paternity establishment -- The state could use several alternative measures of paternity establishment. CBO expects most states would use the number of children who have been born out-of-wedlock and for whom paternity was established or acknowledged during the year, divided by the total number of children born out-of-wedlock during the preceding fiscal year.

2. Support order establishment -- The percentage of child support cases in which there is a support order during the fiscal year.
3. Current support collection -- The percentage of the total support owed during the fiscal year that is collected during the fiscal year.
4. Arrearage collection -- The percentage of child support cases in which there is past-due support that is collected during the fiscal year and, in the case of former recipients of TANF, is paid to the family.
5. Cost-effectiveness -- The total amount of child support collected during the fiscal year divided by the total administrative expenditures during the fiscal year.

A state could receive a maximum incentive of 2.21 percent of its collection base--a maximum of 0.49 percent of the collection base for performance on each of the first three criteria and up to 0.37 percent for performance on the latter two criteria, depending on its level of performance and rate of improvement. For example, if 80 percent or more of a state's cases have support orders, then the state would earn the maximum incentive of .49 percent for that performance criterion. If less than 50 percent of a state's cases have orders, then the state would generally earn no incentive for that criterion. However, if that low-performing state improved its support order establishment by at least 5 percentage points, then it could earn the minimum incentive of 60 percent of the maximum, or 0.294 percent (0.60 times 0.49).

Nationally, performance on four of the five proposed criteria has been steady over the last five years. The paternity establishment percentage is the only measure that has shown a clear trend. In 1991 states established paternity for about 42 percent of out-of-wedlock births. By 1995 the rate had grown to 55 percent.

Nevertheless, CBO expects that states' performance on these five indicators will improve in the coming years. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 provided states with new enforcement tools to improve collection, by creating a new hire registry (designed to speed the receipt of earning information on non-custodial parents) and by requiring states to expedite the process by which they seize the assets of non-custodial parents who are delinquent in their child support payments. Also, states are now beginning to operate new computer systems that will allow for more consistent and accurate reporting of their performance on these indicators. Several directors of state child support enforcement programs and other child support experts surveyed by CBO generally agreed that implementation of the new enforcement tools and better data reporting would lead the states to report moderately improved performance. However, some child support directors expected that standardized reporting rules would lead their states to report worse performance.

Based on states' 1996 reporting of the five indicators, states would earn about 62 percent of the maximum incentive available if they performed in the future at the same level. State performance would vary widely; some states would receive only 25 percent of the maximum incentive available while others would receive up to 90 percent. If each state performed as well as it did in its highest performing year between 1994 and 1996, then states would earn, on average, 66 percent of the maximum incentive. CBO projects that by 2001 states would earn an average of 66 percent of the maximum and that they would earn an extra 0.5 percent of the maximum each year thereafter, reaching 69 percent in 2007.

The new formula would be phased in between 2000 and 2002. In 2000 one-third of the states' incentives would be based on the new formula and two-thirds on the current one. In 2001, two-thirds would be based on the new formula and one-third on the current one. In 2002, only the new formula would be used. CBO projects that the collection base in 2002 would be \$32 billion. The maximum incentive payment would be 2.21 percent of this base, or \$709 million. CBO estimates that states would earn 66.5 percent of the maximum incentive--\$472 million--compared to \$468 million under the current formula.

If the new formula was implemented in 1998, states would earn considerably lower incentive payments than they do under current law. However, by 2000, states would only earn slightly less than they would under current law because the collection base in the new formula is expected to grow much more quickly than the collection base in the current formula. The higher growth in the collection base would result in higher incentive payments for states in 2002 and thereafter than under current law.

PAY-AS-YOU-GO CONSIDERATIONS:

The Balanced Budget and Emergency Deficit Control Act of 1985 specifies pay-as-you-go procedures for legislation affecting direct spending or receipts. The projected changes in direct spending are shown in Table 1 for fiscal years 1998-2007. For purposes of enforcing pay-as-you-go procedures, however, only the effects in the budget year and the succeeding four years are counted.

CBO estimates that enacting H.R. 2487 would decrease direct spending by \$14 million in 2000 and \$7 million in 2001, but would increase spending by \$4 million in 2002. The bill would not affect governmental receipts.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no private-sector mandates as defined in UMRA.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2487 would establish a new formula for distributing child support incentive grants to state governments. This new formula would result in lower funding for the first two years following implementation. Because Child Support Enforcement is a federal entitlement program providing over \$500 million to states annually, UMRA provides that a decrease in federal funding would constitute a mandate if states lack the authority to amend their financial or programmatic responsibilities to continue providing required services. Because some states use a portion of these grants to fund required aspects of their child support enforcement program, and because programmatic flexibility is limited, a decrease in funding for those states may constitute a mandate as defined in UMRA.

The total grant reductions resulting from the formula change (\$14 million in 2000 and \$7 million in 2001) would be well below the mandate threshold established in UMRA. After fiscal year 2001, states would realize increases in their annual grant receipts: \$4 million more in fiscal year 2002 and increasing amounts thereafter. States would be required to use all of these incentive grants for child support enforcement.

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